CARLING O'KEEFE LIMITED

ANNUAL REPORT

1974

CARLING O'KEEFE LIMITED

(formerly Canadian Breweries Limited)

ANNUAL REPORT 1974

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Les actionnaires qui préféreraient recevoir leur rapport en français sont priés d'en aviser le Secrétaire de Carling O'Keefe Limitée.

Directors

JOEL W. ALDRED	President Joel W. Aldred Limited Toronto, Ontario
JOHN LADD DEAN	Partner Hahn, Loeser, Freedheim, Dean & Wellman Cleveland, Ohio
MAJOR GENERAL SIR FRANCIS DE GUINGAND, K.B.E., C.B., D.S.O.	International Director of The Rothmans Group of Companies London, England
JOHN H. DEVLIN	Chairman and Chief Executive Officer Carling O'Keefe Limited Toronto, Ontario
ROBERT H. HAWKES, Q.C.	President Rothmans of Pall Mall Canada Limited Toronto, Ontario
A. SEARLE LEACH*	Chairman Federal Industries Ltd. Winnipeg, Manitoba
ANTHON W. NIELSEN	Director United Breweries Limited Copenhagen, Denmark
RENAULT ST-LAURENT, Q.C., LL.D.	Partner St-Laurent, Monast, Walters, Gagné & Vallières Quebec City, P.Q.
JOHN E. SHAFFNER*	Agent General for the Province of Nova Scotia in the United Kingdom
GEORGE C. SOLOMON	President Western Tractor Limited Regina, Saskatchewan
WILMAT TENNYSON*	President Carling O'Keefe Limited Toronto, Ontario
H. ALAN WALKER	Chairman Bass Charrington Limited London, England

*Member of the Audit Committee of the Board

Officers

Chairman of the Board and Chief Executive Officer	JOHN H. DEVLIN
President	WILMAT TENNYSON
Executive Vice President	GEORGE A. D. STEWART
Executive Vice President Operations	E. NORRIS DAVIS
Vice President Finance and Treasurer	RALPH L. BEATTY
Vice President	BRIAN EDWARDS
Vice President Administration	JAN H. de LANGE
Vice President Operations	MICHAEL G. KEENE
Vice President Corporate and Consumer Affairs	W. RICHARD FOSTER
Secretary	J. WILLIAM JAGO
Comptroller	JOHN R. BARNETT

Directors' Report

Consolidated Results

The operations of the Company for the year ended June 30, 1974, resulted in a consolidated loss, before extraordinary items, of $5,391,000 (34.7 cents per common share), compared to restated earnings of $6,080,000 (18.0 cents per common share) in 1973. The previous year's earnings have been restated to reflect a retroactive change in accounting policy for deferred income taxes of Star Oil & Gas Ltd., as explained in Note 2 to the consolidated financial statements.

After extraordinary items, the loss for the year was $3,850,000 (27.6 cents per common share) compared to earnings of $9,875,000 (35.4 cents per common share) for 1973.

The brewing industry, like other industries in the current inflationary period, has been faced with substantial increases in the cost of all materials and expenses. Unlike most industries, the brewing industry has not been able to pass these cost increases on to the consumer at the time they occurred and has had to absorb the cost increases while price increases were being negotiated. In each province of Canada, with the exception of the Province of Quebec, the selling price of beer is controlled by the provincial government which must approve all price increases. In the United States, the ability to increase the price of beer was restricted by the Cost of Living Council regulations until these controls were removed in April, 1974. A further restraint on the price of beer in United States markets has been the competitive pricing policies of the major brewers.

During the year, the Company's cost of raw materials and manufacturing expenses increased by $17,646,000 or 10.8 percent over the previous year. Due to controls and restrictions, the Company was unable to increase selling prices to keep pace with rapidly increasing costs, and operating profits declined during the year despite increased sales revenue. Price increases were received in some of the major markets during the latter part of the fiscal year but the full effect of these increases will not be reflected until the new year. The benefit of the increases will be lost however if the current inflationary trends continue and further price increases will be necessary in order to return earnings to a reasonable level.

CONSOLIDATED RESULTS FINANCIAL YEARS ENDED	JUNE 30 1974	JUNE 30 1973	INCREASE (DECREASE)
Sales	$419,949,000	$412,603,000	1.8%
Net Earnings (Loss) Before Extraordinary Items	$ (5,391,000)	$6,080,000	
Net Earnings (Loss)	$ (3,850,000)	$9,875,000	
Per Common Share	(27.6¢)	35.4¢	

Consolidated sales in 1974 were $419,949,000, an increase of 1.8 percent over sales of $412,603,000 in 1973. Sales revenue increased in the brewing operations in Canada, the Republic of Ireland and in the Canadian wine operation. These increases were partially offset by lower sales in the United States.

Management has made every effort to control or reduce expenses wherever possible. Despite substantial increases in the cost of goods and services purchased, consolidated marketing and distribution expenses were lower than the previous year, and administrative and general expenses were held to an increase of only 3.4 percent.

As a result of the strength of the Canadian dollar compared to other currencies, the Company incurred a loss of $2,329,000 on foreign exchange compared to a gain of $3,673,000 the previous year. The foreign exchange loss arises on the translation of overseas investments and the

accounts of non-Canadian subsidiaries to Canadian dollars for consolidation purposes. The basis of translation is set out in Note 1 to the consolidated financial statements.

Extraordinary items in 1974 resulted in a credit to earnings of $1,541,000. A net gain of $649,000 was received on the sale of surplus land in Ottawa, Ontario. The sale of the former brewery in Atlanta, Georgia, resulted in a net gain of $892,000.

While Management remains confident of the long term success of the Company, the short term earnings situation will depend largely on the ability to increase selling prices in order to offset the continuing increases in costs.

Brewing Operations—Canada

Canadian sales volume decreased by 1.3 percent from 4,335,000 barrels in 1973 to 4,278,000 barrels in 1974. During the same period, the industry increased 4.8 percent. Packaged sales were up 6.6 percent while draught beer sales declined by 5.5 percent.

BREWING OPERATIONS—CANADA

FINANCIAL YEARS ENDED	JUNE 30 1974	JUNE 30 1973	INCREASE (DECREASE)
Sales (barrels)	4,278,000	4,335,000	(1.3%)
Sales	$241,065,000	$233,209,000	3.4%
Net Earnings	$1,531,000	$5,953,000	(74.3%)
Earnings per Barrel	$0.36	$1.37	(73.7%)

Carling O'Keefe Limited packaged sales increased 2.9 percent over the previous year and although share of market declined, it was at a much slower rate than in previous years.

Although sales of some of the older brands continued to decline, there was evidence that the rate of erosion was slowing down. In each province, certain brands are performing well and provide a strong base for future growth.

"Carlsberg," which was launched in Alberta during 1973, was expanded to other provinces during the year under review and at June 30, 1974 was available in Ontario and the four western provinces. Early in July, "Carlsberg" was introduced to the Montreal and Hull areas of Quebec. The brand is performing well and during the month of June represented in excess of 10 percent of the Company's sales in the provinces in which it was available.

Carling O'Keefe Limited has continued to direct a major portion of its marketing activity towards promotional programs which have been designed to provide benefits to the community, as well as to promote sales of the Company's products. Examples are The O'Keefe Sports Foundation which was established to support amateur sports through provision of world class coaching and The Carling Community Arts Foundation which supports activities to assist Canadians in maintaining their cultural heritage. It should be noted that the funds for these programs are provided out of existing marketing allotments and do not represent additional commitments.

Earnings from Canadian brewing operations for the year were under severe pressure from increasing costs without adequate price relief. In the provinces where selling prices are controlled by government, increases have been slow and, in most cases, were received many months after the cost increases were incurred. During the year, price increases were received in Newfoundland, the Maritime Provinces, Quebec, Ontario, Saskatchewan and British Columbia. Requests for increases have been made to the regulatory bodies in the other provinces but price relief has not yet been received.

Costs of raw materials, labour and manufacturing overheads rose at an unprecedented rate during

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the year. The major increase was in the cost of agricultural products used in the brewing process with the per bushel cost of malting barley more than doubling during the year. Raw material and manufacturing costs in the Canadian brewing operations increased by more than $11,000,000, or 17 percent, over 1973 despite the slight decrease in sales volume. Price increases received offset only $6,000,000 of these cost increases. Unless the provincial governments involved become more responsive to the needs of the brewing industry for price relief on a regular and timely basis, it will continue to be difficult to obtain satisfactory earnings from Canadian brewing operations.

As well as seeking price increases, a continuous review was made of costs to ensure that they were reduced to a minimum. During the year, the smaller of the Company's two plants in Vancouver, British Columbia, was closed and production was consolidated in the larger, more efficient plant.

Brewing Operations—United States

United States sales volume of 3,574,000 barrels was 6.9 percent below last year's sales of 3,837,000 barrels. The United States subsidiary's strong regional brands, "Stag" in the midwest and "Heidelberg" in the northwest, held a significant share of the market in these areas. "Tuborg" continued at a sales level expected of a new brand and Management is optimistic about its long term potential. Sales of Carling "Black Label" declined during the year but new marketing efforts have been made to restore this brand to a growth pattern.

During the year, costs for agricultural products and packaging increased significantly. Due to the government programs of price control and the competitive marketing situation, these cost increases could not be immediately passed on to the consumer. Cost increases during the year exceeded $6,000,000.

On February 14, 1974, Mr. W. Tennyson was appointed President of Carling Brewing Company Incorporated in addition to his duties as President of Carling O'Keefe Limited.

To reduce overhead costs to the minimum, the head office in Waltham, Massachusetts, is being relocated to smaller premises and many services are being more closely co-ordinated with the Canadian brewing operations to improve efficiency.

All marketing activities have been reviewed and the sales force has been re-organized and reinforced. The new sales organization consists of a national sales office in Chicago, Illinois and divisional sales teams in those markets with the best sales potential. These divisional sales teams are supported with aggressive, localized sales promotion and media advertising programs together with community-oriented promotional vehicles. It is too soon to be able to report the results of these new programs but management is confident that the sales picture in the United States will improve.

In September, 1973, the Company phased out operations at its Atlanta, Georgia, brewery and consolidated production in the remaining five plants. The Company was successful in negotiating a sale for the Atlanta, Georgia, property at a price which resulted in a net gain of $892,000

BREWING OPERATIONS—U.S.A.

FINANCIAL YEARS ENDED	JUNE 30 1974	JUNE 30 1973	INCREASE (DECREASE)
Sales (barrels)	3,574,000	3,837,000	(6.9%)
Sales	$135,640,000	$143,905,000	(5.7%)
Net Loss	$6,006,000	$4,593,000	(30.8%)
Loss per Barrel	$1.68	$1.20	(40.0%)

which has been shown as an extraordinary item in the current year operations.

Sales of the Company's Canadian brewed products in the United States increased by 21 percent during the year.

Brewing Operations—Republic of Ireland

Annual sales of the brewing industry in the Republic of Ireland amount to approximately 3,122,000 barrels (Canadian) and it is estimated that the industry increased 7 percent over last year. Stout is the predominant product accounting for over 65 percent of the market and over 70 percent of industry sales is draught beer.

BREWING OPERATIONS—IRELAND

FINANCIAL YEARS ENDED	JUNE 30 1974	JUNE 30 1973	INCREASE (DECREASE)
Sales (barrels)	250,000	230,000	8.7%
Sales	$16,851,000	$15,214,000	10.8%
Net Earnings	$561,000	$499,000	12.4%
Earnings per Barrel	$2.24	$2.17	3.2%

Beamish & Crawford Limited reported increased sales and earnings for the year, with sales growth primarily in the ale and lager segments of the market. "Bass Ale" was the Company's major brand, accounting for over 70 percent of its sales. The major sales improvement for the year was in Carling "Black Label" which increased more than 40 percent over the previous year.

As with brewing operations elsewhere, Beamish & Crawford Limited faced increased raw material and other manufacturing costs. However, earnings improved over last year as a result of the increase in volume and a price increase received in early April.

International Division

Carling "Black Label" is sold under franchise agreements in the United Kingdom and southern Africa. Royalty income under these agreements for 1974 amounted to $868,000, an increase of 16 percent over 1973.

Wine Operations

Carling O'Keefe Limited owns 83.8 percent of the outstanding shares of Jordan Valley Wines Limited. Jordan Valley represents the Company's interest in the Canadian wine industry and includes the Jordan group of companies purchased in 1972 and Growers' Wine Company Limited acquired in 1973. Jordan Valley operates six wineries in five provinces of Canada and, with more than 30 percent of the market, is the largest company in the Canadian wine industry. The company's products are sold under the Jordan, Ste. Michelle, Danforth Estates, Castle, Growers', Beausejour and Chalet brand names.

Operating results for 1974 include Growers' Wine Company Limited for a full twelve month period, compared to only five months in 1973, the year of acquisition. The inclusion of Growers' Wine for the additional seven months contributed approximately $4,600,000 of the increase in wine sales.

The Canadian wine industry sales volume remained relatively unchanged after several years of large increases. Earnings of the wine operations did not keep pace with the increase in sales. As in the brewing industry in Canada, selling prices for wine are established by the provincial liquor boards. Higher costs of materials, supplies and labour have had to be absorbed by the company, with only nominal price increases. More substantial price increases were received during the fourth quarter in major market areas and these will be fully reflected in operations next year.

WINE OPERATIONS			
FINANCIAL YEARS ENDED	JUNE 30 1974	JUNE 30 1973	INCREASE (DECREASE)
Sales (gallons)	4,951,000	3,907,000	26.7%
Sales	$24,435,000	$18,689,000	30.7%
Net Earnings	$682,000	$515,000	32.4%
Earnings per Gallon	13.8¢	13.2¢	4.6%

The company's operations have been carefully reviewed to reduce costs wherever possible. During the year, the winery at New Westminster, British Columbia, was closed and the operations moved to the company's larger plant in Victoria, British Columbia.

Oil and Gas Operations

The Company's wholly-owned subsidiary, Star Oil & Gas Ltd., had a satisfactory year with good growth in hydrocarbon reserves.

Sales from producing oil and gas properties, after royalties, totalled $1,958,000, a 23.5 percent increase over 1973 sales of $1,586,000. Loss for 1974 was $319,000 compared to restated 1973 earnings of $79,000. The restatement was made to give retroactive effect to a deferred tax accounting change as explained in Note 2 to the financial statements. The loss for 1974 was due primarily to dry-hole costs and lease surrender costs.

During the year, Star participated in the drilling of eleven wells resulting in five oil wells, two gas wells and four abandoned wells. One dual oil and gas well was drilled on Star lands by another company at no cost to Star. In addition, 19,498 net acres of proven and semi-proven gas properties, including five shut-in gas wells, were purchased.

Net proven reserves at June 30, 1974, totalled 4,902,000 barrels of crude oil and natural gas liquids and 125 billion cubic feet of natural gas. Net proven oil reserves decreased from 5,250,000 barrels last year despite an increase of 1,171,000 net barrels developed during the year, because of higher crown royalties introduced in Alberta and Saskatchewan. These royalties are deducted in calculating net reserves. The increase in net natural gas reserves from 70.9 billion cubic feet last year is due to the addition of 59.5 billion cubic feet of net natural gas reserves which more than offset the decrease in net gas reserves due to increased gas royalties in Alberta.

The effect of the increased royalties in Alberta and Saskatchewan is illustrated in the following table which compares the gross, before royalty, proven oil and natural gas liquids and natural gas equivalent with the net, after royalty, proven reserves.

	Gross	Net
June, 1973	12,122,000 Bbls.	9,970,000 Bbls.
June, 1974	19,651,000 Bbls.	13,252,000 Bbls.

During the year, Star acquired interests in 54,000 acres of prospective oil and gas lands. At the year-end, the company held interests in 3,970,000 undeveloped acres located in Alberta, Saskatchewan, British Columbia, the Arctic Islands and East Coast offshore.

The company is currently developing three new gas projects in Alberta at Opal, Sunnybrook and Prevo. It is anticipated that the Opal project will be in production by the end of 1974 and the Sunnybrook and Prevo projects will be in production in 1975. The gas sales from these projects will result in a substantial increase in revenue to the company.

The oil industry is currently operating in a period of great uncertainty in Canada. The proposed changes in the federal income tax which were announced in May of this year would, if implemented, greatly reduce the oil industry's cash

flow position and hence its ability to explore and develop new oil and gas reserves. A reduction in cash flow has already occurred by the introduction of greatly increased provincial crown royalties in Alberta and Saskatchewan and by the federal export tax on crude oil.

If an oil company such as Star is to grow in value, it must reinvest its cash flow in exploration and development of oil and gas reserves. If this cash flow is substantially reduced there will be a corresponding decrease in the amount of monies available for such development. In view of the uncertainty created by the proposed changes in the federal income tax, the company has decided not to undertake any new projects which would require substantial cash outlays until such time as the tax changes are known and the cash flow position can be accurately calculated.

It is hoped that the provincial governments and the federal government will be able to come to some agreement on the sharing of oil revenues which will allow the industry sufficient cash flow to continue its efforts to develop oil and gas reserves in Canada.

Investment and Other Income

Income is received from funds invested in short term marketable securities; from mortgages taken back on the sale of surplus properties; and from other non-current investments and sundry properties.

Income from investments and other income amounted to $4,137,000 compared to $5,186,000 in 1973. During the year, interest rates increased dramatically in both North America and Europe and the market values of the marketable investments held by the Company declined reflecting their lower rate of interest. The difference between cost and market value of these investments, in the amount of $1,288,000, was written off to operations.

The year saw many fluctuations in the relative values of the world's currencies with the Canadian dollar becoming stronger. Carling O'Keefe Limited has major investments in foreign countries and, as a result of the strengthening of the Canadian dollar, incurred a loss on translation of foreign currency items in the amount of $2,329,000. In 1973, the comparable item was a gain of $3,673,000. $1,199,000 of the loss on translation in 1974 related to overseas short term investments; the remaining $1,130,000 resulted from the translation of the accounts of foreign subsidiaries. In 1973, $3,265,000 of the gain on translation related to the overseas short term investments.

In 1971, when the Company's United Kingdom investments were sold, part of the proceeds was invested in municipal and federal bonds and debentures in Europe. During the following three years, a portion of these funds was returned to Canada as part of the financing of Canadian acquisitions and other programs. Since 1971, the net foreign exchange adjustment on these funds invested overseas has been a gain of $2,879,000.

Balance Sheet

The increased cost of raw materials, labour and overheads was the major factor affecting the increase in inventories and accounts payable. The quantity of inventories remained relatively unchanged from last year but the value increased $6,488,000. Accounts receivable increased primarily as the result of selling price increases together with increased sales in the markets where the product is sold on credit.

June 30, 1974, working capital was $50,275,000 with a ratio of current assets to current liabilities of 1.88 to 1. The decrease in working capital for

the year of $7,770,000 has been analyzed in the statement of changes in the financial position.

Property, plant and equipment at June 30, 1974, declined $3,983,000 from last year due to the disposal of the Atlanta, Georgia, brewery and the reclassification of the closed Vancouver, British Columbia, brewery, to other assets. Additions to property, plant and equipment for the year amounted to $13,236,000 with the major items being additions and replacements to the brewing automotive fleet of $1,825,000; the first phase of the expansion of the Bennett Brewing plant in Newfoundland of $830,000; the expansion of the Baltimore, Maryland plant of $1,013,000; expenditures in the wine group to expand and renew facilities of $2,022,000 and expenditures for oil and gas properties of $2,058,000.

Capital expenditures for the 1975 fiscal year are estimated at $12,700,000. The major items are the continued expansion of the Bennett plant in Newfoundland, expenditures to increase capacity of the Vancouver, British Columbia and Montreal, Quebec breweries, together with requirements to expand capacity of the Company's wine operations.

Industrial Relations

Good working relations continued with all of the various union locals throughout the year and the Company did not experience any work stoppages or slow-downs as a result of labour disputes. In Canada, new agreements were signed with employees in Quebec, Ontario, Manitoba and Alberta. Employees in Newfoundland, Saskatchewan and British Columbia were working under existing agreements.

All union employees in the United States brewing operations are covered by agreements expiring in 1976.

General

At the Annual Meeting held on November 1, 1973, shareholders approved a special resolution to change the name of the Company from Canadian Breweries Limited to Carling O'Keefe Limited. Articles of Amendment were received making this change effective November 9, 1973.

Coincident with the restructuring of management of the United States brewing subsidiary, two directors, E. Norris Davis and Sheldon S Wilson, resigned. Mr. Davis, who was a director by reason of his former position as President, Carling Brewing Company Incorporated, has returned to the parent company, Carling O'Keefe Limited, as Executive Vice President, Operations with responsibility for operations of all the Company's breweries in Canada, the United States and the Republic of Ireland. Mr. Wilson was a consultant to the United States subsidiary in marketing matters. Directors were not appointed to replace Mr. Davis and Mr. Wilson and at the annual meeting, shareholders will be asked to confirm a resolution reducing the Board from fourteen directors to twelve directors.

The directors wish to thank the more than 5,200 men and women employed in the Company's plants and offices for their loyal efforts during a most difficult year. On behalf of the directors, I wish to also thank the shareholders for their continued support and encouragement.

Chairman of the Board and
Chief Executive Officer

CARLING O'KEEFE LIMITED
(formerly Canadian Breweries Limited)
AND SUBSIDIARY COMPANIES
(Incorporated under the laws of Ontario)

Consolidated Statement of Operations

(in thousands of dollars)

	Year Ended June 30	
	1974	**1973 (Restated)**
Income		
Sales	$419,949	$412,603
Excise and sales taxes	145,236	148,589
	274,713	264,014
Investment and other income	4,137	5,186
Foreign exchange gain (loss)	(2,329)	3,673
	276,521	272,873
Costs		
Raw materials and manufacturing	180,704	163,058
Marketing and distribution	77,523	79,173
Administrative and general	19,127	18,494
Minority interest	137	156
Interest, including interest on long term debt of $1,814 (1973—$2,036)	3,713	3,374
	281,204	264,255
Earnings (loss) before income taxes and extraordinary items	(4,683)	8,618
Income taxes (Note 4)		
Current	428	3,343
Deferred	280	(805)
	708	2,538
	(5,391)	6,080
Extraordinary items (Note 5)	1,541	3,795
EARNINGS (LOSS) FOR THE YEAR	$ (3,850)	$ 9,875
Earnings (loss) per common share		
Before extraordinary items	(34.7)¢	18.0¢
For the year	(27.6)¢	35.4¢

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year Ended June 30	
	1974	1973 (Restated)
Balance at beginning of year (Note 2)	$ 45,584	$ 40,006
Earnings (loss) for the year	(3,850)	9,875
Excess of par value over cost of preference shares purchased for cancellation	101	43
	41,835	49,924
Dividends paid		
Preference		
$2.20 per Series A share and $2.65 per Series B share	2,153	2,164
Common (1973—10¢ per share)	—	2,176
	2,153	4,340
Balance at end of year	$ 39,682	$ 45,584

Analysis of Changes in Working Capital

(in thousands of dollars)

	Year Ended June 30	
	1974	1973
Increase (decrease) in current assets		
Cash	$ (3,246)	$ (7,613)
Short term investments	(13,309)	(8,083)
Accounts receivable	2,266	2,293
Recoverable income taxes	(2,116)	(1,603)
Inventories	6,488	6,360
Prepaid expenses	(1,962)	2,191
Total	(11,879)	(6,455)
(Increase) decrease in current liabilities		
Bank indebtedness	(6,970)	(2,539)
Notes payable	12,880	(2,705)
Accounts payable and accrued liabilities	(2,616)	(2,411)
Income taxes	328	909
Other taxes	484	201
Dividends payable	3	2,179
Total	4,109	(4,366)
Decrease in working capital	$ 7,770	$ 10,821

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year Ended June 30 1974	Year Ended June 30 1973 (Restated)
Working capital was increased by:		
Earnings (loss) before extraordinary items	$ (5,391)	$ 6,080
Depreciation	9,964	8,964
Other items not requiring working capital	(620)	(864)
Working capital from operations	3,953	14,180
Proceeds on sale of Atlanta brewery	4,864	—
Proceeds on sale of surplus land $1,922 (1973—$7,869) less mortgage assumed $1,749 (1973—$7,000)	173	869
Proceeds on disposal of—property, plant and equipment	1,520	1,253
—investments and other assets	945	1,508
	11,455	17,810
Working capital was decreased by:		
Purchase of shares of subsidiary companies for $230 (1973—$10,391) cash less working capital at acquisition $36 (1973—$4,253) (Note 3)	194	6,138
Additions to property, plant and equipment	13,236	14,821
Extraordinary charges (Note 5)	—	154
Dividends paid to shareholders—preference	2,153	2,164
—common	—	2,176
Dividend paid by subsidiary company to minority shareholders	105	161
Retirement of long term debt	3,388	2,911
Purchase of preference shares	149	106
	19,225	28,631
Decrease in working capital	(7,770)	(10,821)
Working capital at beginning of year	58,045	68,866
Working capital at end of year	$ 50,275	$ 58,045

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

(in thousands of dollars)

	June 30 1974	June 30 1973 (Restated)
ASSETS		
Current Assets		
Cash	$ 3,261	$ 6,507
Short term investments, at the lower of cost and market	11,907	25,216
Accounts receivable	31,087	28,821
Recoverable income taxes	879	2,995
Inventories (Note 6)	56,326	49,838
Prepaid expenses	3,930	5,892
Total Current Assets	107,390	119,269
Property, Plant and Equipment, at cost (Note 7)	251,782	255,765
Less accumulated depreciation	119,451	119,099
	132,331	136,666
Investments and Other Assets (Note 8)	20,081	18,243
Goodwill (Note 3)	11,902	11,677
	$271,704	$285,855
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness	$ 14,334	$ 7,364
Notes payable	3,325	16,205
Accounts payable and accrued liabilities	27,412	24,796
Income taxes	747	1,075
Other taxes	10,760	11,244
Dividends payable	537	540
Total Current Liabilities	57,115	61,224
Long Term Debt (Note 9)	33,823	37,857
Total Liabilities	90,938	99,081
Deferred Income Taxes	15,190	15,105
Minority Interest	3,313	3,254
Shareholders' Equity		
Capital stock (Note 10)		
Preference shares	44,224	44,474
Common shares	78,357	78,357
	122,581	122,831
Retained earnings	39,682	45,584
Total Shareholders' Equity	162,263	168,415
	$271,704	$285,855

APPROVED ON BEHALF OF THE BOARD

J. H. DEVLIN, *Director*

W. TENNYSON, *Director*

Notes to Consolidated Financial Statements

JUNE 30, 1974 AND 1973

1. Accounting policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The principal operating subsidiaries are listed on Page 20. Purchase accounting is followed for all acquisitions and the results of operations of subsidiaries are included from effective dates of acquisition. Goodwill, being the excess of the cost of shares of certain subsidiaries over the book value of the underlying net tangible assets at the time of acquisition, is carried at cost.

FOREIGN EXCHANGE

Foreign currency accounts are translated to Canadian dollars as follows: current accounts at exchange rates in effect at June 30; other balance sheet accounts and depreciation expense at historical rates; income and other costs at average rates for the year. The resulting exchange gains or losses are included in the consolidated statement of operations.

INVENTORIES

Inventories of beverage products and materials and supplies are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

PROPERTY, PLANT AND EQUIPMENT

Depreciation is provided generally on the straight line basis over the estimated service lives of the assets.

The costs of acquiring interests in developed and undeveloped oil and gas properties and the development costs of productive wells are capitalized. Producing property costs are amortized using the unit of production method over the estimated recoverable oil and gas reserves. Lease rentals, other carrying costs and dry hole costs are charged to expense as incurred. The costs of properties which are abandoned are written off.

INVESTMENTS AND OTHER ASSETS

Investments and other assets are recorded at cost or amortized cost except for those held for resale which are recorded at estimated realizable value if less than cost or amortized cost.

PENSIONS

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains or losses are written off over periods approximating the remaining service lives of the employees affected.

MARKETING COSTS

Marketing costs, including those related to the introduction of new product brands, are charged to operations as incurred, except for certain promotional items which are charged to operations as used.

INCOME TAXES

Income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income.

2. Accounting change

In accordance with the practice adopted by the Canadian oil and gas industry in 1974, Star Oil & Gas Ltd., has recorded deferred income taxes attributable to exploration and development costs incurred since its acquisition by the Company. This change, which has been adopted retroactively, increased the loss for the year by $43,000, and reduced earnings by $145,000 in 1973, and by $215,000 in 1972, the year of acquisition.

3. Acquisitions

During the year the Company purchased for cash all of the outstanding shares of a soft drink bottling company. Jordan Valley Wines Limited increased its investment in a majority owned subsidiary through the purchase for cash of additional shares and the conversion of a loan into common shares. Goodwill included in the consolidated balance sheet has increased by $225,000 as a result of these transactions.

During 1973 the Company purchased all of the outstanding shares of Growers' Wine Company Limited for $10,391,000 cash, of which $2,020,000 has been included in goodwill.

4. Income taxes

Credit has not been taken for losses of the major United States subsidiary, which may be applied only against future taxable income, other than credits related to reversal of deferred income taxes. At June 30, 1974 approximately $5,800,000 of tax loss carry forward is available to be applied against taxable income over the next five years.

No income taxes are payable by the Irish subsidiary as a result of the carry forward of losses incurred in prior years.

5. Extraordinary items

	1974	1973
Net gain of $784,000 on the sale of surplus land less applicable income taxes of $135,000 (1973—nil)	$ 649,000	$ 3,949,000
Net gain of $697,000 on disposal of the Atlanta brewery and applicable deferred income taxes of $195,000. In 1973 provision was made for the estimated closing costs of $300,000 less applicable income taxes of $146,000	892,000	(154,000)
	$ 1,541,000	$ 3,795,000

6. Inventories

	1974	1973
Beverage products, finished and in process	$32,984,000	$29,209,000
Materials and supplies	13,394,000	9,874,000
Containers	9,948,000	10,755,000
	$56,326,000	$49,838,000

7. Property, plant and equipment

	1974		1973	
	Assets	Accumulated Depreciation	Assets	Accumulated Depreciation
Land	$ 6,681,000	$ —	$ 7,034,000	$ —
Buildings	79,738,000	27,543,000	81,231,000	27,772,000
Machinery, furniture and fixtures	136,132,000	84,078,000	141,190,000	84,700,000
Motor vehicles	11,765,000	5,661,000	9,692,000	5,118,000
Oil and gas properties	15,480,000	1,507,000	14,354,000	963,000
Leasehold improvements	1,986,000	662,000	2,264,000	546,000
	$251,782,000	$119,451,000	$255,765,000	$119,099,000

8. Investments and other assets

	1974	1973
Mortgages and long term receivables	$14,614,000	$13,394,000
Deferred charges, investment in associated companies and other	3,217,000	3,040,000
Sundry properties	2,250,000	1,809,000
	$20,081,000	$18,243,000

A first mortgage for $7,000,000 received in 1973 on sale of surplus land matures December 15, 1977 with interest at 8 percent payable semi-annually. The interest payment due June 15, 1974 has not been received as of August 14, 1974, and action is being taken to protect the Company's position. The unpaid interest has not been included in the accounts.

9. Long term debt

	1974	1973
Sinking fund debentures payable in either Canadian or U.S. funds, at par, at the option of the holder:		
Series A $4\frac{3}{4}\%$ due January 15, 1979	$ 2,154,000	$ 2,495,000
Series B $4\frac{1}{4}\%$ due January 15, 1981	4,703,000	5,512,000
Sinking fund debentures payable in Canadian funds:		
Series C 5% due January 15, 1983	4,640,000	5,512,000
Series D $5\frac{1}{2}\%$ due April 1, 1986	8,342,000	9,472,000
Series E $5\frac{1}{2}\%$ due April 1, 1989	13,984,000	14,979,000
	33,823,000	37,970,000
Less amount included in current liabilities	—	113,000
	$33,823,000	$37,857,000

The remaining sinking fund payments required for the years 1976 through 1979 are as follows:
1976—$2,823,000; 1977—$3,800,000; 1978—$3,800,000; 1979—$3,800,000.

10. Capital stock

	1974	1973
Authorized		
884,485 preference shares with a par value of $50 each, issuable in series		
30,001,260 common shares without par value		
Issued		
433,745 $2.20 cumulative redeemable preference shares, Series A	$ 21,687,000	$ 21,687,000
450,740 $2.65 cumulative redeemable preference shares, Series B	22,537,000	22,787,000
21,762,295 common shares	78,357,000	78,357,000
	$122,581,000	$122,831,000

The Series A and B preference shares are redeemable at $53.00 and $52.50 per share respectively. During the year ended June 30, 1974, 5,000 Series B shares were purchased for cancellation (1973—3,000 shares).

Rothmans of Pall Mall Canada Limited is the beneficial owner of 50.1 percent of the Company's common shares.

11. Remuneration of Directors and Senior Officers

Total remuneration of Directors and Senior Officers for the year was $704,000 (1973—$762,000).

12. Pensions

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees. Total pension expense for the year was $3,737,000 (1973—$3,353,000). The Company's policy is to fund pension costs charged to operations. As a result of amendments to certain plans and declines in the market value of the funds, at June 30, 1974 unfunded prior service costs, which primarily relate to salaried employee plans, are estimated at $8,200,000, of which $2,400,000 relates to vested benefits.

13. Commitments and contingent liabilities

Under a long term agreement with United Breweries Limited of Copenhagen, Denmark dated March 17, 1972, the Company obtained access to the brewing research and technical knowledge of United Breweries Limited, together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trade marks in Canada, the United States and the Republic of Ireland. Royalties are payable in fixed amounts to September 30, 1974, and thereafter are based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancellable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

Rentals payable under lease agreements expiring more than three years after June 30, 1974 approximate $1,148,000 annually. These leases are for the most part, for periods of from four to ten years.

The Company is committed to acquire the minority interest (16.2%) in the shares of Jordan Valley Wines Limited at an undetermined future date.

Price Waterhouse & Co.
chartered accountants

P.O. Box 51 Toronto-Dominion Centre Toronto, Ont. M5K 1G1

August 14, 1974

Auditors' Report

To The Shareholders of Carling O'Keefe Limited:

We have examined the consolidated statements of operations, retained earnings and changes in financial position of Carling O'Keefe Limited (formerly Canadian Breweries Limited) and its subsidiary companies for the year ended June 30, 1974, and the consolidated balance sheet as at that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the results of operations and the changes in financial position of the companies for the year ended June 30, 1974, and their financial position as at that date, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the tax allocation basis of accounting for the effect of oil and gas expenditures as explained in Note 2, on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

CARLING O'KEEFE LIMITED

AND SUBSIDIARY COMPANIES

FIVE-YEAR FINANCIAL SUMMARY

(in thousands of dollars)

For Fiscal Years Ended	June 30				
	1974	1973	1972	1971	1970
Results for the Year	$	$	$	$	$
Sales	419,949	412,603	404,779	396,210	408,651
Excise and sales taxes	145,236	148,589	147,905	145,214	148,218
Sales excluding taxes	274,713	264,014	256,874	250,996	260,433
Operating costs	267,390	251,761	234,730	228,466	235,010
Investment and other income	4,137	5,186	5,398	6,109	6,986
Foreign exchange gain (loss)	(2,329)	3,673	283	(600)	(421)
Interest expense	3,713	3,374	2,938	2,687	2,567
Minority interest	137	156	107	—	—
Depreciation and amortization	9,964	8,964	8,870	7,924	7,350
Earnings (loss) before income taxes	(4,683)	8,618	15,910	17,428	22,071
Income taxes	708	2,538	7,495	8,887	10,783
Extraordinary charges (credits) less applicable income taxes	(1,541)	(3,795)	2,005	2,551	68
Net earnings (loss)	(3,850)	9,875	6,410	5,990	11,220
Dividends paid—preference	2,153	2,164	2,171	2,185	2,196
—common regular	—	2,176	8,705	8,705	8,705
—common special	—	—	—	—	21,762
Net earnings (loss) per common share	(28)¢	35¢	20¢	17¢	41¢
Dividends per common share	—	10¢	40¢	40¢	$1.40
Year end position					
Cash and short term investments	15,168	31,723	47,419	53,858	19,722
Less bank indebtedness and notes payable	17,659	23,569	18,325	1,186	—
	(2,491)	8,154	29,094	52,672	19,722
Other current assets	92,222	87,546	78,305	71,334	64,756
Less other current liabilities	39,456	37,655	38,533	38,508	38,768
Working capital	50,275	58,045	68,866	85,498	45,710
Property, plant and equipment—net	132,331	136,666	128,142	106,389	108,172
Investments and other assets	20,081	18,243	15,910	33,804	80,110
Goodwill	11,902	11,677	8,811	215	—
Less: Long term debt	33,823	37,857	41,210	45,069	48,580
Deferred income taxes	15,190	15,105	15,119	13,232	12,808
Minority interest	3,313	3,254	2,413	—	—
Capital employed (shareholders' equity)	162,263	168,415	162,987	167,605	172,604
Current ratio	1.9	1.9	2.2	3.2	2.2
Percentage return on capital employed	(2.4)	5.9	3.9	3.6	6.5
Preference share capital	44,224	44,474	44,624	44,833	44,969
Book value per common share	$5.42	$5.70	$5.44	$5.64	$5.86

FINANCIAL REVIEW

Earnings Analysis
(in thousands of dollars)

	Earnings		% Return on Sales		% Return on Capital Employed	
	1974	1973	1974	1973	1974	1973
Brewing Operations						
Canada	$1,531	$5,953	.6	2.6	1.8	7.4
United States	(6,006)	(4,593)	(4.4)	(3.2)	(13.0)	(8.9)
Ireland	561	499	3.3	3.3	5.2	5.0
Total	(3,914)	1,859	(1.0)	.5	(2.8)	1.3
Wine	682	515	3.4	3.6	2.6	2.6
Oil and gas	(319)	79	(16.3)	5.0	(2.2)	.6
International	432	276				
Investment and other income	354	2,327			2.4	9.5
Foreign exchange gain (loss)	(1,728)	2,047				
Long term debt interest	(898)	(1,023)				
Net earnings before extraordinary items	(5,391)	6,080	(1.3)	1.5	(3.3)	3.6
Extraordinary items	1,541	3,795	.4	.9		
NET EARNINGS (LOSS)	$(3,850)	$9,875	(.9)	2.4	(2.4)	5.9

Analysis of Sales
(in thousands of dollars)

	1974		1973	
	Amount	%	Amount	%
Brewing				
Canada	$241,065	57.4	$233,209	56.5
U.S.A.	135,640	32.3	143,905	34.9
Ireland	16,851	4.0	15,214	3.7
Total	393,556	93.7	392,328	95.1
Wine	24,435	5.8	18,689	4.5
Oil and gas	1,958	.5	1,586	.4
	$419,949	100.0	$412,603	100.0

Analysis of Beverage Sales Dollar

	1974	1973
Taxation	$0.37	$0.38
Materials and manufacturing expenses	0.29	0.27
Salaries, wages and fringe benefits	0.18	0.17
Marketing, distribution, administrative and other expenses	0.15	0.15
Depreciation	0.02	0.02
Earnings (loss) before extraordinary items	(0.01)	0.01
	$1.00	$1.00

Principal operating subsidiary companies:

CANADA
- THE BENNETT BREWING COMPANY, LIMITED
- THE CARLING BREWERIES LIMITED
- DORAN'S NORTHERN ONTARIO BREWERIES LIMITED
- O'KEEFE BREWING COMPANY LIMITED
- JORDAN VALLEY WINES LIMITED
- STAR OIL & GAS LTD.

UNITED STATES
- CARLING BREWING COMPANY INCORPORATED
- CENTURY IMPORTERS INC.

REPUBLIC OF IRELAND
- BEAMISH & CRAWFORD LIMITED

Executive Offices: 79 ST. CLAIR AVENUE EAST, TORONTO, CANADA M4T 1M6

Auditors: PRICE WATERHOUSE & CO.

Bankers:
BANK OF MONTREAL
THE ROYAL BANK OF CANADA
CHEMICAL BANK—NEW YORK

Registrars:

IN CANADA
- MONTREAL TRUST COMPANY

IN THE UNITED STATES
- MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Transfer Agents:

IN CANADA
- NATIONAL TRUST COMPANY, LIMITED
  Ontario, Quebec, Manitoba, Alberta and British Columbia
- CANADA PERMANENT TRUST COMPANY
  New Brunswick and Nova Scotia
- THE CANADA TRUST COMPANY
  Saskatchewan

IN THE UNITED STATES
- THE CHASE MANHATTAN BANK